Session Topic: Investing in energy and industrial development: challenges and opportunities

- Enabling environment, including national energy and industry policies and regulatory framework, for increased investments in energy and industry
- Capital markets and FDI: funding for large-scale energy and industrial projects
- Innovative financing arrangements and incentives, including for small-scale projects

Ed Pinero, Federal Environmental Executive, Office of the President

1) Partial Credit Guarantees Mobilize Private Financing for Development

Case Study

USAID Development Credit Authority[+]

Since its inception in 1999, the U.S. Agency for International Development's Development Credit Authority program has established 143 partial credit guarantees in 41 countries, mobilizing $1.04 billion in credit from a cost to USAID of $38 million. USAID partial credit guarantees promote greater investment from the private sector by reducing lenders' risk in making loans to particular areas, sectors or borrowers. A USAID guarantee is intended for use when a viable loan would not be made. DCA guarantees typically cover up to 50 percent of a lender's risk on a particular loan, series of loans (portfolio) or investment. This risk-sharing methodology enables lenders to invest while reducing their exposure to loss. By engaging lenders' capital, the guarantees leverage American taxpayers' dollars with more sustainable financing from local capital markets. In addition to mobilizing financing for specific projects, partial guarantees help demonstrate to local banks that loans to underserved sectors can be profitable. This fosters self-sustained financing because lenders become willing to finance projects on a continuous basis without the support of guarantees from USAID or other donors. *Point of contact on U.S. delegation: Jennifer Dostert (jdostert@usaid.gov)*

Lesson learned

Partial credit guarantees can reduce the risks associated with lending to new sectors or new borrowers and leverage substantial private-sector lending to finance development activities.

Obstacle addressed

Lack of private sector finance for development activities.

Next steps

Encourage continued utilization of credit guarantees to mobilize private financing.

2) Building Capacity for Commercial Financing for Energy Efficiency and Renewable Energy Projects

Case Study

Building Local Commercial/Financial Infrastructure – EESD[+]

Through the Efficient Energy for Sustainable Development (EESD) Partnership, the U.S. government is collaborating with a range of partners to assist local banks and commercial entities in Mexico, Philippines, Poland, and Thailand, and elsewhere in building locally managed financial programs that can attract long-term and affordable financing for energy efficiency and renewable energy projects. EESD partners are providing training to financial institutions so that they can serve as financial intermediaries or Special Purpose Entities to: aggregate and standardize transactions to create deal flow; use tools such as loan guarantees to mitigate risk; and pool public and private capital to support portfolio investments. These financial structures address the risks and transaction costs associated with energy efficiency and renewable energy projects. *Point of contact on U.S. delegation, Larisa Dobriansky, larisa.dobriansky@hq.doe.gov*

Lesson learned

Building local commercial/financial infrastructure is necessary to close the gap between available capital and qualified energy efficiency and renewable energy projects.

Obstacle addressed

High transaction costs and risks associated with financing energy efficiency and renewable energy projects, and the lack of familiarity by local banks and other commercial entities with

* - Case study listed in CSD Matrix

[+] - Case study to be submitted to Secretariat during CSD-14

financing these transactions.

Next steps: Replicate financial structures within rapidly industrializing economies. Extend efforts through implementation of newly approved APEC initiative, "Financing High Performance, Low Impact Buildings and Communities."

3) Simplifying Energy Efficiency Service Procurement

Case Study: Procurement of Energy Efficiency Services in Egypt[±]
USAID has developed a simple, demand-driven procurement process to help bring private sector equipment and service providers into the energy efficiency business in Egypt. Rather than past efforts which have focused on promoting a more Western-style business model, USAID selected two facilities (one public, one private) and provided them support to develop and issue requests for proposals (RFP) that invite private bidders to propose a package of services (project design, equipment procurement and installation, financing, maintenance) aimed at reducing total energy consumption. The bidders can propose those services they are able to provide; the facilities can then select the package of services that best meets their needs. In addition to the development of a sustainable and replicable RFP process, two energy efficiency projects will actually be implemented. This process can also help develop viable projects to be supported by many of the existing energy efficiency financing programs, in Egypt and elsewhere

Lesson learned: **A simple, demand-driven procurement process for energy efficiency investments can help link appropriate financing to identified projects.**

Obstacle addressed: In terms of energy efficiency (EE), procurement is constrained by several factors, including: lack of customer awareness/understanding of EE, high upfront costs for EE equipment, high project development costs (i.e., energy audits), lack of affordable and appropriate financing, high perceived risks, weak regulations/pricing policies, etc.

Additional examples

- Clean Energy Financing in Central America – the CAREC Facility*
- DCA Facility for Municipal Energy Efficiency in Bulgaria*
- Innovative Financing for Energy Efficiency - Mexico*
- United States - Rural Cooperatives for Wind Energy[+]

* - Case study listed in CSD Matrix
[+] - Case study to be submitted to Secretariat during CSD-14